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APPENDIX

DEVELOPMENT OF THE WORLD ECONOMIC SITUATION DURING THE FIRST QUARTER OF 1948

GENERAL

In most of the world economic conditions showed moderate improvement during the first quarter of 1948. Further gains are probable, but will come only slowly in view of actual civil disorder in some areas and the prevailing apprehension of war in others. In the aggregate, however, when viewed over a period of several months, improvement in the economic situation is clearly evident.

Weather conditions continue to be favorable for good yields of agricultural crops in all areas. The moderately upward trend in mining and manufacturing and in domestic trade has continued in recent months particularly in Western Europe. The assurance of early United States economic assistance has already given courage to friendly peoples. It will also probably release productive forces and some hoarded commodities and should further stimulate internal and foreign trade. It will probably permit France, the United Kingdom, and other industrial countries to

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overcome without serious interruption the effects of the shortages of raw materials which until recently threatened industrial operations in these countries.

The rapid price increases which were widespread in 1947 appear to have been arrested in recent months: in Italy in October; in the United States in February; and in France in March. The declines in France appeared first in food prices; more recently the Government has reported an agreement with manufacturers for reductions up to 10 percent for important manufactured products such as shoes, woolen fabrics, and agricultural equipment. Recent fiscal policies of the French Government, reflected in a reduction in the volume of money in circulation, is an important influence in the decline in prices. Temporary stability rather than marked increases or marked declines appear to characterize world prices at the present time.

The conclusion of an agreement to set up a customs union between France and Italy, although limited in its probable practical results, is symbolic of the increasing appreciation that economic cooperation is essential to survival in Western Europe. The celerity with which the countries of Western Europe appear to be

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reaching agreement upon trade, financial clearing, and other matters of a common economic interest is further evidence of the appreciation of the necessity of active cooperation on economic matters.

Civil disorder which exists throughout nearly all of the Asiatic countries has in some cases interrupted production and export of commodities and essential raw materials in which the United States and Western Europe are interested. This is particularly true in China where low production of tungsten, antimony, and tin have greatly restricted the export of such commodities. Exports of manganese, jute and mica, at present irregular and in reduced volume from India, appear somewhat uncertain for the future. The production and export of tin and rubber from Malaya and the Netherlands East Indies has increased and is much more promising than exports of essential materials from other parts of Asia.

The policies which appear to be developing in Czechoslovakia and other Satellite countries indicate a possible reduction in east-west European trade. For the time being, however, exports of coal, some cereal grains, and lumber from the Soviet

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Union, Poland and other Satellite countries to Western Europe appear to be continuing.

Somewhat greater improvement in economic conditions appears to have taken place in Western European than in Eastern European countries. In Western Europe (excluding Bizonia) only Italy has failed to surpass prewar production. Conversely, in Eastern Europe, Poland has experienced substantial increases over prewar production. The downward trend of production in Italy, begun in September 1947, appears to have been arrested in February at about 60 percent of the 1938 level. A considerable portion of Satellite production has been syphoned off to the USSR. A further spread between the production levels of the two areas may be expected as a result of Western cooperation and United States aid and lack of Soviet capability to provide the necessary and agreed assistance in raw materials and capital facilities to the Satellite countries.

FOOD

It now seems probable that reduction of the bread ration in Western Europe during the next few months will not be necessary. Some general improvement in rations may, indeed, be expected to

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result from greater availabilities of other foods, especially vegetables. The outlook for cereal grain production in Western Europe (21 percent above the 1947 harvest) given in CIA 5 (12 February 1948) continues probable as a result of continued good weather.

COAL

If not unduly prolonged, the United States embargo of coal shipments occasioned by the present strike is not likely to affect Western Europe seriously. United States deliveries overseas are ahead of schedule, and the inventory position in nearly all countries is better than it was a year ago. Coal production in the United Kingdom, the Ruhr, Poland and France also continues ahead of the rates necessary for the achievement of annual targets.

STEEL AND NONFERROUS METALS

Steel production outside the United States continues to increase, although hampered by scrap shortages. World production, however, is far short of requirements. In Europe collection of scrap from war-devastated countries has fallen short of expectations.

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Nonferrous metals have been in short world supply and there appears to be no prospect of alleviation of this shortage in the near future. During the first quarter of 1948 metal and other raw material stocks in some of the ERP countries declined to dangerously low levels. Prospect of a possible serious development, however, is reduced by the timely passage of the foreign aid legislation.

CHEMICALS

Increasing coal and steel output in Europe gives promise of increases in production of much needed nitrogen fertilizer and industrial compounds and alkalies, as well as coal-tar crudes and industries dependent on them.

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The slow, but definite, improvement in economic conditions in the Western European countries during the past two years and the prospects for further advances are among the strong stabilizing influences in that part of the world. Economic recovery cannot stand alone without reasonable military security and civic order, but in the West it continues to be an element of strength in the total picture.

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